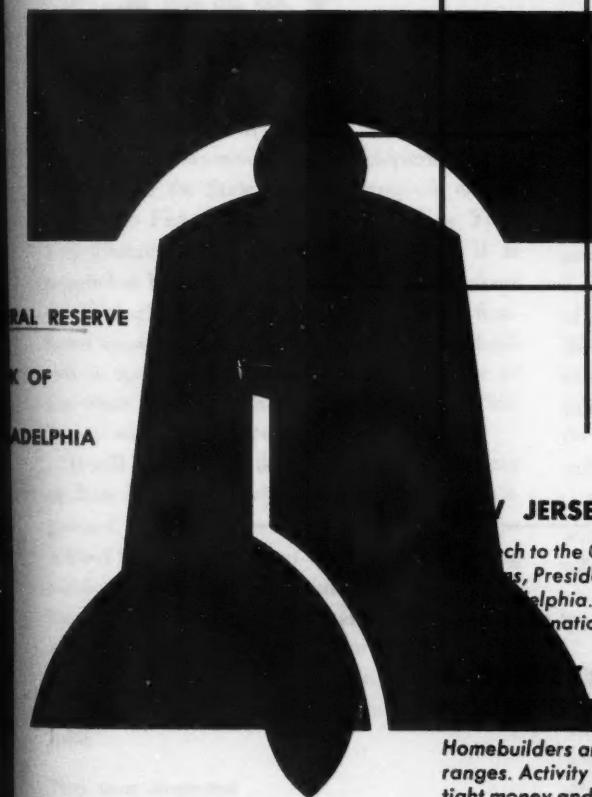


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MONEY

business review



NEW JERSEY — A STATE IN TRANSITION

Speech to the Convention of New Jersey Bankers by Alfred H. Lerner, President of the Federal Reserve Bank of Philadelphia. The theme of this speech is developed against an international and regional backdrop.

OF THIRD DISTRICT MARKETS

Homebuilders are making fewer starts, mostly in higher price ranges. Activity is off sharply in mortgage markets, reflecting tight money and a declining demand for home financing.

CURRENT TRENDS

Prices are still rising—are costs pushing or demands pulling?

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The central theme of the New Jersey Bankers Association Convention—the development of the economy of the State of New Jersey—is one in which the Federal Reserve Banks of New York and Philadelphia are greatly interested. It is somewhat hazardous to join the other speakers in developing the topic because they have first-hand knowledge of specialized aspects. I also hesitate to speak in the presence of the Governor of the State because of his vast knowledge of New Jersey and its development.

It will be helpful in thinking about the economy of New Jersey to develop first the national background. It is not intemperate to say that the United States has in recent years been undergoing an economic and social revolution. This, of course, has been true of the United States at all times. In recent years, however, there have been significant differences in degree if not in kind. A few of the primary forces making for change are worthy of note.

The war impetus

During World War II the economic activity of the United States doubled in volume. Furthermore, in

the years immediately following, the expansionary impetus created by the war continued to work. A few statistics will illustrate the point.

Between 1941 and 1955 the military in this country expended \$527 billion. Figures of this magnitude are difficult to grasp and for purposes of comparison it is worth recalling that during World War I in its entirety—and this includes the so-called loans to allies—we expended only \$33 billion. In the course of the fifteen-year period, 60 per cent of all federal expenditures were for military purposes.

These expenditures for the "hot" and "cold" war stimulated other phases of the economy. Obsolescence and depreciation of industrial plant were greatly accelerated. In the years from 1946-1956, we spent \$111 billion for plant and equip-

This article is taken from an address made by President Alfred H. Williams at the New Jersey Bankers Association Convention in Atlantic City, New Jersey, on Thursday, May 23, 1957.

ment. Again, the significance of this figure is enhanced by the observation made in 1944 by the War Production Board that the worth of the then existing manufacturing plant of the country was \$75 billion. Currently, we are spending for plant and equipment at a rate of \$17 billion annually.

The expansionary forces born of the war also had effects on consumer demand. Such items as houses, automobiles, and household appliances—all in short supply during the war—were in great demand. As this pent-up demand expanded, there was a war-created accumulation of purchasing power—war bonds, bank deposits, and other liquid resources. Here were the ingredients for developments on the consumer front that were to transform life almost incredibly.

The rapid rise of trade unions

The rapid expansion of trade unions—another basic influence that has been at work—had its origin in the mid-Thirties—in the trough of the Great Depression. The modern trade union movement stems from the 1880's. It gained in strength rather slowly. In 1933 membership represented about 5 per cent of the labor force of the country. The next year a period of rapid growth started and by 1954 membership had climbed to 16 million or about 25 per cent of the labor force. The unions, for a number of reasons beyond the scope of this talk, were most successful at the bargaining table. The leaders came, never asking for less, always asking for more, and obtaining a considerable portion of what they asked. The rapid rise in income was yeast in the economic dough that exerted a tremendous expansionary force in the national economy.

The exploding population totals

A third basic factor in the expansion of our economy has been the accelerated rate of population

growth. As recently as 1936 some students of population growth forecasted a stationary population in the United States beyond the year 1957. The growth that has occurred in the last twenty years was not envisaged. In the sixteen years prior to 1940 our population expanded 16 per cent; in the sixteen years since 1940 our population has expanded 27 per cent. Consider the situation here in New Jersey. The number of births recorded in 1955 was double that of 1940.

Perhaps it would be interesting and worthwhile to digress for just a moment and raise some questions: What accounts for this increased willingness, this zeal to expand the human family? Is it due to some deep-seated racial urge or drive in the face of Man's daily diet of tension and trouble to perpetuate our kind? For example, we know that Nature stimulates the production of an apple tree when the tree is injured. It is as though Nature seeks, in a last effort before extinction, to put forth an unusual crop and thus insure survival.

Is the increase in the birth rate the cause of prosperity? Or is it the result of prosperity? Economists are not in agreement on this. Likewise, students of population are not in agreement as to whether the current higher rate of population growth is permanent or transitory.

These and other basic influences combine to push economic expansion

The net results of these basic influences have been a tremendous over-all economic growth. Some general statistics will indicate this.

Gross national product in this period increased 240 per cent. Disposable personal income on a per capita basis has gone up 149 per cent. High-level employment has come to be regarded as normal. In 1939 there were 9½ million persons unemployed in the United States. In 1956 unemployment had dropped to 2.6 million, despite a 22 per

cent increase in the labor force. This unemployment is almost a normal residual amount—economists call it “frictional unemployment,” the kind that is with us at all times, as workers change jobs, as old industries lose ground slowly, and as new industries emerge.

With this great expansion in business activity has come an interstate stampede for industry. States vie with each other vigorously to induce firms to locate within their respective boundaries. The inducements offered are many: land grants, preferential taxes, state-supported credit corporations, industrial parks, port improvement projects, and numerous other allurements.

From this competition there have emerged marked differences in the rate of growth in the various economic regions of the United States. In the period 1947-1954, manufacturing (as measured by “value added”) has expanded 57 per cent in the country as a whole. In the Pacific Coast Region the growth has been 104 per cent. At the end of the race came New England, where the increase has been 33 per cent. Next to last was the Middle Atlantic States, of which New Jersey is a part.

NEW JERSEY — UNDER EXAMINATION

Turn now from the national and regional scenes and put New Jersey under the glass for a close look. An outstanding fact about New Jersey is that it is one of the smallest states in the Union. In size it ranks 45—right down at the bottom. As the crow flies, this small, kidney-shaped strip of land is 166 miles long and at its narrowest point only 32 miles wide. One gets some idea of the contour of its 130 miles of coast line when informed that the total shore line is 1,800 miles in extent. Except for 50 miles along the New York boundary, New Jersey would have been an island. The Hudson River, the Bay, the Atlantic Ocean, Delaware

Bay and the Delaware River almost surround it by water. It has 300 miles of navigable water, and 60 per cent of the area is in Coastal Plain.

Population gain is rapid

The current population of New Jersey amounts to nearly 5½ million. In the period from 1940-1955, it grew about 32 per cent as compared with an 11 per cent increase in Pennsylvania and 19 per cent in New York. The population of the United States increased by about 26 per cent.

When the population distribution of New Jersey is analyzed, two areas emerge. First, there is heavy concentration in the northern counties. Eight of these counties have 70 per cent of the population of the state. This eight-county area grew at the rate of 28 per cent during this period under scrutiny; the remaining counties grew more rapidly, at the rate of 41 per cent.

A farm state?

This state is euphemistically called “The Garden State.” Agriculture provides only 2½ per cent of the total employment of the state. This is not to say that agriculture is not important—it is. On the other hand, it does not swing as much weight in the broad totals as might be imagined. Highly concentrated, agriculture in the State of New Jersey is confined to a narrow strip. This goes from one bay to the other bay, the length of the state. This strip is between 15 and 25 miles wide. It has 2,500 square miles in it and it covers a third of the area. Generally, the farms in this narrow strip are small and diversified.

Much of what has been said about agriculture in New Jersey emphasizes its small size, yet farms in this state rank first in the whole United States in cash receipts per acre. New Jersey ranks fifth among all the agricultural states of the country in

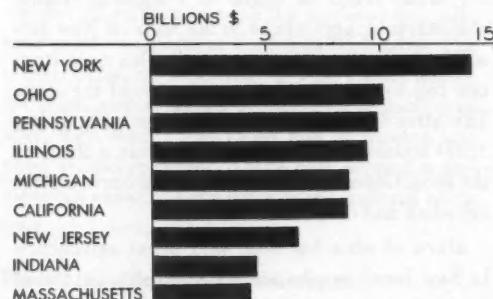
the average cash receipts per farm. In agriculture, you have quality if not quantity.

What is the future of agriculture in New Jersey? Mr. B. L. Seabrook has asked that a state-wide, land-use survey be made. This is a constructive suggestion. Agriculture should not be unnecessarily shoved around in your zeal to build up industry. If industry is allowed indiscriminately to take over land that is highly developed and useful for agricultural purposes, the State of New Jersey will be weakened. The best farm land should be set aside for this purpose. New Jersey farms are ideally suited to service the huge metropolises of Philadelphia and New York. With careful development and further use of modern machinery and fertilizer, farms have a solid potential.

Industry is on the rise

The most important source of employment in New Jersey is manufacturing, in fact this is a heavily industrialized state. About 38 per cent of the employment of New Jersey is derived from manufacturing sources. The average for the United States is 26 per cent.

NEW JERSEY, SMALL IN SIZE, IS BIG IN VALUE ADDED BY MANUFACTURE.



Source: U. S. Bureau of the Census

Consider some significant figures that can justify your pride and stimulate action in ways which will be touched upon in just a moment. New Jersey is seventh among all states in the country in value added. Among the leading industrial states of the country it ranks fifth in industrial growth in the period between 1947 and 1954. In industrial diversification, which is a difficult thing to measure, it is estimated that New Jersey is number one among the top industrial states in the United States. There is a well-balanced industrial setup at present in the state.

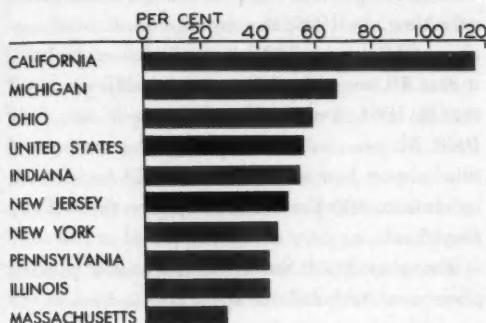
When one looks more closely at industry, we find again a contrast between the north and the south. In 1939, 76 per cent of all manufacturing in the state was concentrated in the eight northern counties referred to in discussing population. In 1954 this proportion had gone up to 79 per cent—a high degree of concentration in the northern counties.

Concentration of industry brings problems

The northern counties are part of the New York metropolitan complex—that great mass of humanity tangled up with the artifacts of civilization, trying to figure out how to progress at the rate of some of the newer sections of the country. Because the northern New Jersey counties are tied in with the New York metropolitan area, they share many of its problems—problems dealing with traffic, with outmoded industrial buildings, with a shrinking tax base, and other aspects of growth and decay.

New Jersey is not peculiar in this regard. Man everywhere throughout the world is confronted with the problem of metropolitanism—of the metropolitan tangle. This is true of Mexico City, Johannesburg, Berlin, London, Los Angeles (which someone described as "six towns in search of a city"), Chicago, Cleveland, and many others.

AMONG LARGE INDUSTRIAL STATES,
NEW JERSEY HAS HAD AVERAGE GROWTH
IN VALUE ADDED BY MANUFACTURE—
1947-1954



Source: U. S. Bureau of the Census

Competent students in government have said that the number-one governmental problem facing the United States is how to redevelop our great metropolitan areas—decaying at the core, with people moving to the periphery and thus creating the suburban shantytowns of tomorrow.

Such problems have aroused the interest of the Ford Foundation. It is supporting studies in St. Louis, Boston, Detroit, Cleveland, and elsewhere. The Rockefeller Brothers and the Ford people are putting funds into a study of what is likely to happen in New York City in the next twenty years. In Philadelphia, where the problems of metropolitan growth and decay are especially complex, the Ford Foundation has been asked to supplement local and state funds for a study of the metropolitan area.

The size and complexity of the task of rebuilding our congested areas call for heroic measures. Great amounts of capital will be needed. These funds will have to come from many sources—fed-

eral, state, and local government as well as private sources. What is now going on in Newark under a variety of auspices can serve as a model for other communities in northern New Jersey.

New pioneering country

The middle and southern areas of New Jersey have equally difficult problems but of a different nature. Here, instead of size, complexity, age, and maturity, are to be found problems associated with inexperience, over-optimism, excess zeal, and vigor. Consider the elements of strength in this section of the State of New Jersey.

First are the strengths of location. Think of the raw materials that are readily accessible to the state, by rail, by water, by road. Consider also the markets that are accessible to New Jersey manufacturers and farmers. Think of the labor supply that is accessible. Recently there was opened a \$100 million bridge connecting New Jersey and Philadelphia and the rest of Pennsylvania. New Jersey manufacturers in the area serviced by this bridge can now easily draw upon a labor supply in the City of Philadelphia. Within a 100-mile radius of the center of New Jersey there are about 20 million people ready in the ways indicated to be served or to serve.

Brief comments may be made on other elements of strength. Adequate water supply is generally regarded as a problem in New Jersey and it is, but you are aware of the problem and something is being done about it. At present, under Federal Government leadership, a survey of water resources and needs is being conducted. An inadequate water supply is not likely to limit your growth in the near future.

A word about the labor supply is in order. It interested one of the Bank's economists who attended a county development meeting in southern New Jersey to hear an industrial-development man

from the anthracite area of Pennsylvania, in the course of that session to the New Jersey leaders, say: "One of the elements of your strength is that you have in New Jersey no hard core of unemployment. Therefore, you do not have to offer everything including the town pump to induce firms into your state."

Regarding transportation facilities, there is not a state in the Union that has the equal of New Jersey's transportation facilities—11 major railroads, with the greatest trackage per square mile in the United States; a 118-mile Turnpike, a 165-mile Parkway, bridges, the possibility of a series of low-cost, cross-state laterals that will give to New Jersey a superhighway grid the like of which is not to be seen in any of the other states. I understand that the Federal Highway Fund Act will give to New Jersey on a ratable basis \$750 million to be expended by 1970. Adding all these to the Delaware River and the New York Harbor, the state has an exceedingly fine transportation system.

The question of taxation is picked up gingerly. My friends tell me that, locally, taxation varies greatly from community to community and also that state taxes on intangibles are beginning to tighten, and that there are frictions between these sets of taxes. Perhaps a bromide is in order. The problem here is how equitably you are going to tax and how intelligently you are going to spend. These are the two sides of the tax coin. This is a basic problem and the speaker leaves it with the pious wish that you can get in the field of taxation something that he has heard since boyhood and once experienced as a result of trying to exceed the speed limit getting from Ocean City to Philadelphia, and that is "Jersey justice."

The business of recreation

Turn now to a final aspect of the economy of New Jersey—the recreation industry. America, as a

result of the basic forces touched upon at the outset, is undergoing vast changes in its mode of living. None is more evident or more important than the matter of leisure and the use we make of leisure time. In 1900, the average work week was about 60 hours; in 1925, it was 50 hours; in 1953, it was 40 hours, and it is confidently predicted that by 1965, if not before, it will be 35 hours. In 1940, 40 per cent of the production workers of this country had paid vacations, and soon it will be close to 100 per cent, except for the self-employed.

The growth of Social Security and pension plans means dependable spendable income in old age. Americans of all ages are now confronted with the task of choosing what sort of life we shall live—what our personal pattern of consumption is to be. We may well forego tangible goods for leisure. Rather than buy goods, we may travel, engage in sports—as participants or spectators—cultivate a garden, enjoy literature, or feed our sense of self and of enjoyment in myriad other ways. There are almost as many ways for us to spend our "extra" dollars as there are individuals.

New Jersey is ideally suited for vacation business. It is close to two great metropolitan areas. It has 120 miles of beach. But it requires more than a good location and a good beach to have a good recreational area. Last year your speaker had occasion to talk to 125 of the leaders of Atlantic City. We talked of the challenge that was now coming to Atlantic City with this long-run rise in income. Star-gazing a bit, we discussed what sort of a recreational city it would be possible to have, utilizing all of the strengths that the seashore areas now have.

The possibility was pictured of merging the four or five governmental units surrounding Atlantic City. Then, nearby on the bay, as an adjunct to the island itself, a large recreational city

might be created with the aid of private, state, and federal funds. A city was pictured where every block would be functionally designed. There would be blocks for young married people, with a pediatrician on the site; where there would be baby sitters, laundry services, inexpensive recreational facilities, air conditioning, etc. Another block was depicted for the eager-beaver athletic type where young would-be athletes could learn about baseball from a Ted Williams, tennis from a Jack Kramer, golf from a Ben Hogan, and so on. This was to be supplemented with an educational tutelage service to bring up to college or preparatory school standards those deficient in specific courses of study. We pictured a great salt-water tidal basin, as a result of dredging, where there could be boating similar to the types that attract the youngsters to New England. And to complete the picture, there would be blocks for the aged, where medical consultants, specializing in diseases and ailments of old age as well as special diets, would be available, a hobby center where new interests could be developed, and a recreational center which would provide interesting diversion—mental and physical—for those of advanced years.

Much of what was said at that meeting is fanciful; it is dreaming aloud. The standards of living in the years ahead will be such as to warrant this type of development, and it is in the spirit of America where, in the words of a great philosopher, "Life is a becoming, never an arrival."

CONCLUSIONS

This is New Jersey as I see it in this current period of transition. I conclude with this rhetorical question: What is to be the future of New Jersey?

The future of New Jersey will depend upon the imponderables—the forces that cannot be meas-

ured statistically. It will depend on attitudes of mind, on richness of spirit, on willingness to discipline yourself, on capacity for cooperation. And, very importantly, the future of New Jersey will depend on solid leadership—the leadership to guide the "younger, immature" southern half of the state; the leadership to redevelop the mature areas; the leadership necessary to take advantage of your small size and compactness.

Consider this last point for a moment. One of the great philosophers of America, Josiah Royce, observed that America needs more provincial loyalties. By this he meant that Americans need to attach themselves and to be loyal to that which is small enough to be embraced, to be understood, to be adorned, to be served, and that if there continues to be further centralization of power in Washington, the American spirit will become estranged from itself. Viewed in this light, your small size, your compactness can serve as an asset. Your state is not so vast in extent that you as individuals and business leaders cannot come to know each other thoroughly. New Jersey's opportunity for further growth can be realized if you consciously develop your local capacity to cooperate.

Bankers must accept the responsibility for providing a good part of this leadership. There is a lot of leverage in your position as bankers. You occupy a strategic position.

I have always had a soft spot in my heart for New Jersey. There are no memories more pleasant or precious to me than those of my early years vacationing in New Jersey. Of a different sort, but also enjoyable, are the memories of my 17 years with the Federal Reserve System, the years covered by the period I have been attempting to analyze. Dealings in this period of maturity with the bankers of New Jersey will be cherished in the days ahead.

A SURVEY OF THIRD DISTRICT HOUSING MARKETS

Homebuilders and realtors see no major improvement over the remainder of 1957

Homebuilders in major city areas of the Philadelphia Federal Reserve District have become increasingly cautious. They have made fewer starts and shifted operations to projects in the higher price ranges. The urgency of housing demand has disappeared, with the greatest decline in the mass market. Activity in the mortgage market has diminished sharply owing to tight money and declining demand.

This was the consensus of a spot check made with local builders, realtors, and mortgage brokers operating in this Federal Reserve District. But there were some bright spots in this otherwise gloomy picture. Most builders spoke of the small "overhang" of unsold new houses this spring. Relatively few areas reported more than the usual number of old houses on the market. In most cases these dwellings were moving slowly because asking prices were too high. In rental properties, occupancy was generally well maintained at firm rates. And a tight mortgage market appeared to have eased slightly since the turn of the year, chiefly insofar as FHA funds were concerned. Conventional financing has remained readily available in most places.

Housing starts in a sharp decline

As early as last fall even the more optimistic of our Third District builders took another look at their 1957 plans and decided that a policy of further

substantial retrenchment was in order. The slackening rate at which completed units in so many operations were selling at that time dictated such a course. In some cases a substantial number of finished houses was carried over the winter, and these moved slowly through the early spring. But even now, at the peak of the season, builders say that prospective buyers shop around, "covering the waterfront," before making any decision.

So it is not surprising that our homebuilders have scaled down to market size their 1957 operating plans. On this basis, builders feel that it's a much healthier situation and want to keep it that way. As indicated by the value of residential contracts awarded in the first four months of this year, very few of our major city areas can expect much of an increase in housing starts this summer. In some areas this yardstick suggests a further sharp decline in activity. According to the F. W. Dodge Corporation's figures for the Third District as a whole, the residential contract total for this period was down 17 per cent from 1956, compared with a 20 per cent decline shown at the end of the quarter.

Builders shifting to higher-price ranges

The mass market for new housing has declined most and builders have very little to offer in the lower price ranges. Rising costs have been a factor but the extreme difficulty of obtaining VA financ-

ing, except at prohibitive discounts, has been largely responsible for the fewer starts in the price ranges below \$15,000. The price of land has continued to increase sharply. Improvement costs are still rising because of higher wages in the construction trades and increased prices of some materials used in developing building sites. The Homebuilders Association of Philadelphia, for example, recently signed a three-year contract that will raise pay rates in local building trades a total of 30 cents an hour by 1959. Cement, plumbing fixtures, and steel are among the materials that have become more costly in recent months. A relatively few building materials have decreased slightly in price, chiefly because of smaller demand.

In the \$15,000-and-up bracket, activity has been fairly well maintained in various parts of our District. Suburban Philadelphia and the Wilmington-Newark area in Delaware are places where both operational and custom homebuilders seem to have become more active lately. And they are looking at the fall market with somewhat more optimism. Harrisburg, Trenton, and Reading are other areas where this year's starts have been virtually restricted to projects in the higher price ranges. Nearly all builders say that only higher priced quality homes have sufficient "eye appeal" to bring out buyers. Moreover, these buyers usually have sufficient cash to qualify for either a conventional or an FHA mortgage, consequently closings don't hang fire and final settlement usually can be made promptly.

Old houses are moving slowly

Activity in the market for old houses also has slackened considerably, largely because so many owners have not yet taken a realistic view of values. Usually where asking prices have been lowered, sales have been reasonably prompt.

Existing houses, particularly the larger ones in older neighborhoods, however, sometimes present more of a problem in obtaining financing. In today's mortgage market, lenders can afford to be more "choosey" in the type of risk they will accept. Lately, the number of old houses offered for sale has increased significantly in a few city areas of this District. But it seems to be the opinion of realtors that some of these listings may be made to test the market and do not represent an urgent desire to sell on the part of the owners.

Rental demand continues active

Properties in any reasonable state of repair rent promptly in all our larger city areas. In fact, the chief complaint of many real-estate agents has been the shortage of listings for both houses and apartments in desirable locations. In most areas the trend of rentals has continued firm to rising. In cities like Philadelphia, Lancaster, and Scranton, where rental statistics are published as part of the Bureau of Labor Statistics consumer price index, the trend has continued steadily upward through the early months of this year. Reports from other areas generally indicate a similar situation.

Mortgage money is tight, but there are signs of easing

Although mortgage brokers are generally pessimistic, some see a slightly easier situation developing, while others look for an improvement, possibly later this year. The mortgage market is described as complex and unusually quiet. Conventional mortgages present no problems at all. Financing on the basis of at least one-third down at interest rates ranging from 5½ to 5¾ per cent has never been difficult to arrange. On so-called prime risks involving new houses and a

somewhat larger down payment, funds are available at a slightly lower rate.

FHA mortgages are said to be gaining favor—and this is about the extent to which the mortgage market appears to have become easier. In some cases where the down payment is more than the minimum required by law, these mortgages are available at par value. With a minimum amount of cash, points are still charged although the discounts are somewhat smaller than around the turn of the year. Some say that more FHA money is becoming available since the pension funds began investing in this type of mortgage. Others feel that availability has increased mainly because the demand has been so much smaller than a year or two ago. In any event, a continuing flow of funds into FHA could make quite a difference in the mortgage market.

On VA loans, however, it is a far different story. These mortgages bearing 4½ per cent interest simply can't compete for the supply of investors' dollars. VA's also lose favor by reason of the small initial equity a prospective home buyer has in a property financed on the minimum terms permitted. Our inquiries concerning

availability indicated that only builders holding commitments made some time ago were in a position to offer VA home financing. In secondary markets, these mortgages are said to be available only at discounts ranging to 10 points. Builders are not prepared to offer financing on such terms, and it becomes too expensive a proposition for the average owner of an old property unless he is extremely anxious to make a quick sale.

"More of the same" seems to be the 1957 outlook

Over the remainder of this year builders expect to make fewer starts than in 1956. A few look for some improvement in the fall market but only if there is further easing in the mortgage situation. No builders at this time have plans for any significant amount of low-cost housing. The market for old houses seems unlikely to change much unless asking prices become more realistic. Rental demand prospects look good, and no increase in vacancy rates is anticipated. Mortgage brokers and the larger lenders are hopeful of a better situation by fall, but most of them agree they have very little to go on at the present time.

CURRENT TRENDS

Cost-push or demand-pull?

Nothing that has happened over the past four weeks seems to have changed the business picture materially. Of course, it is now quite definite that the usual spring upturn in automobile sales didn't happen. It is also true that major household appliances are not selling as well as a year ago. Undoubtedly the slowdown in housing starts has influenced appliance sales adversely. Generally, however, the expected rises in Government spending, plant and equipment expenditures, and spending by consumers on food, clothing, and services have materialized. So that looking at the total picture, these increases have more than counterbalanced the soft spots.

Perhaps the item of business news which received the most attention during the past month was another hike in the consumer price index. This marked the 13th month in the past 14 that the cost of living increased. To be sure, the monthly increases have seemed small, but they've been consistent. At present, consumer prices stand 4 per cent higher than in April 1956.

The persistence of these rises in the general level of consumer prices has stimulated much speculation as to the cause or causes of the inflationary trend. As might be expected, there has been some disagreement among the analysts. Not all see the causes of current price rises in the same way. In the main, however, writers on this subject may be categorized as "cost-pushers" or "demand-pullers."

"Cost-pushers" vs. "demand-pullers"

The basic thesis of the "cost-pushers" is that wages are rising faster than productive efficiency.

Since employers are naturally unwilling to take the wage increases out of profits, prices must rise—be pushed up.

As might be expected, there are many variants of this basic thesis. One interesting concept has it that the cost-push comes from a "derived" wage rise.

The idea is that wages of productive workers in manufacturing rise as a result of collective bargaining procedures. To a large extent, if not completely, these hikes are offset by the introduction of new machinery and equipment which sharpens productive efficiency. Since there is a general wage pattern, the rises granted production workers in manufacturing set in motion forces tending to push up wages of workers in the service trades. Garage mechanics, television set repairmen, bus drivers, bartenders, barbers, hospital orderlies, and others all must have their incomes adjusted to maintain some kind of relationship with industrial workers. But in this type of work—the services—it is frequently impossible to do anything by capital investment to improve productivity. So the price of services rises and pushes up the general level of consumer prices.

The basic thesis of the "demand-pullers" has it that there is too much money chasing too few goods. Put another way, the idea is that parts of our economy want to borrow more than we are willing to save—investment exceeds voluntary saving. This means the only way some borrowers can be satisfied is through the creation of credit, i.e., money. Since the central bank has been unwilling to create all of the funds demanded, the

economy has found ways to use the existing money supply more efficiently. And through a large increase in the turnover of money—velocity of circulation—the business system has generated its own new credit and tended to negate some of the central bank's restrictive actions.

Again, there are variants of the basic thesis. One involves productivity and for that reason bears a suspicion of resemblance to some of the cost-push theories. Here it is said that the type of goods enjoying an increase in demand determines whether or not prices will rise. For example, if demand rises sharply for items able to be mass produced through assembly line methods, prices will not be materially affected. On the other hand, prices will rise when there is a sharp increase in the demand for goods not amenable to mass-production methods.

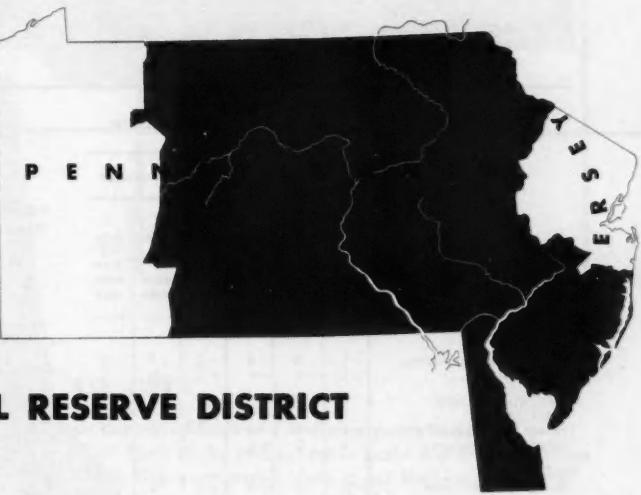
This reasoning is used to explain why prices hardly changed in 1955 despite a tremendous increase in the demand for credit by consumers

to buy automobiles and some other durable goods that are turned out on the assembly line. Also, this attempts to explain why prices rose in 1956. The sharp increase in demand for credit by businessmen was so they could build new factories and office buildings, and buy new machinery and equipment—items not nearly so adaptable to mass production.

Who is winning?

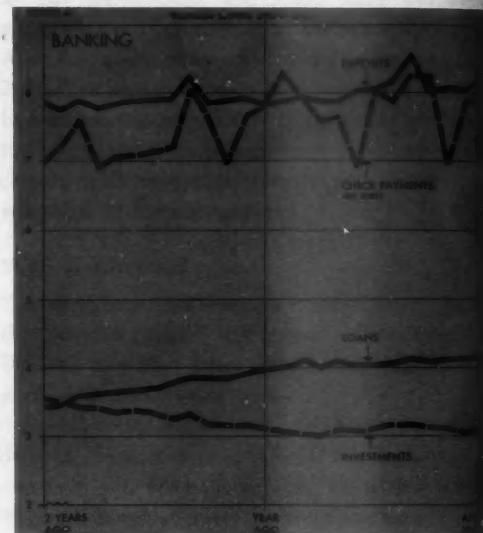
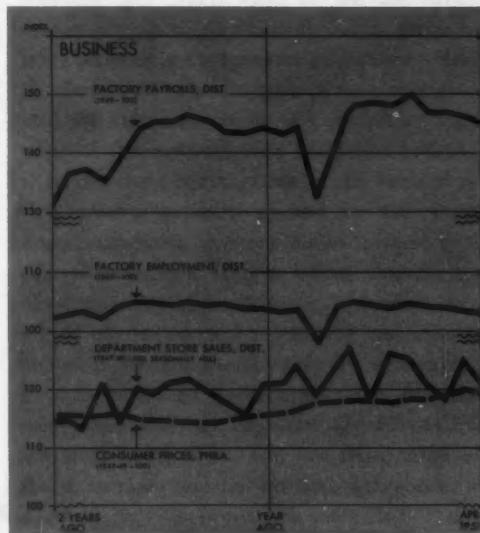
The discussions between the "cost-pushers" and the "demand-pullers" will undoubtedly continue. To date, they have been very illuminating. They promise to continue to be so.

It still seems a little early to choose between the two basic theories. All of the arguments aren't in yet. It could be that when they are, many of us will still feel the same way we did as children when first confronted by that all-time perplexer, "Which came first, the chicken or the egg?"



THIRD FEDERAL RESERVE DISTRICT

FOR THE RECORD...



SUMMARY	Third Federal Reserve District		United States		LOCAL CHANGES	Factory*		Department Store		Check Payments	
	Per cent change		Per cent change			Employ- ment	Payrolls	Sales	Stocks		
	April 1957 from mo. ago		4 mos. 1957 from year ago			April 1957 from mo. ago	4 mos. 1957 from year ago	Per cent change April 1957 from mo. ago	Per cent change April 1957 from year ago		
	year ago	year ago	+1	+1		year ago	year ago	year ago	year ago		
OUTPUT											
Manufacturing production	-1	-4	-4	-2	+1	+2					
Coal Mining	+1	-5	-4	-5	-2	-3					
EMPLOYMENT AND INCOME											
Factory employment (Total)	-1	-1	0	-1	0	0					
Factory wage income	-1	0	+1								
TRADE**											
Department store sales	-2	0	+2	-4	0						
Department store stocks	-1	+3		0	+4						
BANKING (All member banks)											
Deposits	+2	+5	+3	+2	+3	+2					
Loans	+1	+4	+6	+0	+7	+8					
Investments	+3	0	-8	+9	-9	-4					
U.S. Govt. securities	+4	+2	-1	+3	-2	-6					
Other	-1	-3	-3	+1	-1	-2					
Check payments	0†	+1†	+3†	-2	+9	+8					
PRICES											
Wholesale	0‡	+3‡	+4‡	0	+3	+4					
Consumer				0	+4	+4					

**Adjusted for seasonal variation.

†20 Cities
‡Philadelphia

*Not restricted to corporate limits of cities but covers areas of one or more counties.

